

$$EWALGD = \frac{\sum_i LGD_i \cdot EAD_i}{\sum_i EAD_i}$$

where  $LGD_i$  represents the average LGD associated with all exposures to the  $i$ th obligor. In the case of a securitization, an LGD of 100 percent must be assumed for the underlying exposures that are themselves securitization exposures.

(f) *Simplified method for computing N and EWALGD.* (1) If all underlying exposures of a securitization are retail exposures, a national bank or Federal savings association may apply the SFA using the following simplifications:

- (i)  $h = 0$ ; and
- (ii)  $v = 0$ .

(2) Under the conditions in §§3.143(f)(3) and (f)(4), a national bank or Federal savings association may employ a simplified method for calculating N and EWALGD.

(3) If  $C_1$  is no more than 0.03, a national bank or Federal savings association may set  $EWALGD = 0.50$  if none of the underlying exposures is a securitization exposure, or may set  $EWALGD = 1$  if one or more of the underlying exposures is a securitization exposure, and may set N equal to the following amount:

$$N = \frac{1}{C_1 C_m + \left( \frac{C_m - C_1}{m - 1} \right) \max(1 - m C_1, 0)}$$

where:

(i)  $C_m$  is the ratio of the sum of the amounts of the 'm' largest underlying exposures to UE; and

(ii) The level of m is to be selected by the national bank or Federal savings association.

(4) Alternatively, if only  $C_1$  is available and  $C_1$  is no more than 0.03, the national bank or Federal savings association may set  $EWALGD = 0.50$  if none of the underlying exposures is a securitization exposure, or may set  $EWALGD = 1$  if one or more of the underlying exposures is a securitization exposure and may set  $N = 1/C_1$ .

#### § 3.144 Simplified supervisory formula approach (SSFA).

(a) *General requirements for the SSFA.* To use the SSFA to determine the risk weight for a securitization exposure, a national bank or Federal savings association must have data that enables it to assign accurately the parameters described in paragraph (b) of this section. Data used to assign the parameters de-

scribed in paragraph (b) of this section must be the most currently available data; if the contracts governing the underlying exposures of the securitization require payments on a monthly or quarterly basis, the data used to assign the parameters described in paragraph (b) of this section must be no more than 91 calendar days old. A national bank or Federal savings association that does not have the appropriate data to assign the parameters described in paragraph (b) of this section must assign a risk weight of 1,250 percent to the exposure.

(b) *SSFA parameters.* To calculate the risk weight for a securitization exposure using the SSFA, a national bank or Federal savings association must have accurate information on the following five inputs to the SSFA calculation:

(1)  $K_G$  is the weighted-average (with unpaid principal used as the weight for each exposure) total capital requirement of the underlying exposures calculated using subpart D of this part.  $K_G$

is expressed as a decimal value between zero and one (that is, an average risk weight of 100 percent represents a value of  $K_G$  equal to 0.08).

(2) Parameter W is expressed as a decimal value between zero and one. Parameter W is the ratio of the sum of the dollar amounts of any underlying exposures of the securitization that meet any of the criteria as set forth in paragraphs (b)(2)(i) through (vi) of this section to the balance, measured in dollars, of underlying exposures:

- (i) Ninety days or more past due;
- (ii) Subject to a bankruptcy or insolvency proceeding;
- (iii) In the process of foreclosure;
- (iv) Held as real estate owned;
- (v) Has contractually deferred payments for 90 days or more, other than principal or interest payments deferred on;

(A) Federally-guaranteed student loans, in accordance with the terms of those guarantee programs; or

(B) Consumer loans, including non-federally-guaranteed student loans, provided that such payments are deferred pursuant to provisions included in the contract at the time funds are disbursed that provide for period(s) of deferral that are not initiated based on changes in the creditworthiness of the borrower; or

(vi) Is in default.

(3) Parameter A is the attachment point for the exposure, which represents the threshold at which credit losses will first be allocated to the exposure. Except as provided in section 142(l) for  $n^{\text{th}}$ -to-default credit derivatives, parameter A equals the ratio of the current dollar amount of underlying exposures that are subordinated to the exposure of the national bank or Federal savings association to the current dollar amount of underlying exposures. Any reserve account funded by the accumulated cash flows from the underlying exposures that is subordinated to the national bank's or Federal savings association's securitization exposure may be included in the calculation of parameter A to the extent that cash is present in the account. Parameter A is expressed as a decimal value between zero and one.

(4) Parameter D is the detachment point for the exposure, which represents the threshold at which credit losses of principal allocated to the exposure would result in a total loss of principal. Except as provided in section 142(l) for  $n^{\text{th}}$ -to-default credit derivatives, parameter D equals parameter A plus the ratio of the current dollar amount of the securitization exposures that are *pari passu* with the exposure (that is, have equal seniority with respect to credit risk) to the current dollar amount of the underlying exposures. Parameter D is expressed as a decimal value between zero and one.

(5) A supervisory calibration parameter,  $p$ , is equal to 0.5 for securitization exposures that are not resecuritization exposures and equal to 1.5 for resecuritization exposures.

(c) *Mechanics of the SSFA.*  $K_G$  and W are used to calculate  $K_A$ , the augmented value of  $K_G$ , which reflects the observed credit quality of the underlying exposures.  $K_A$  is defined in paragraph (d) of this section. The values of parameters A and D, relative to  $K_A$  determine the risk weight assigned to a securitization exposure as described in paragraph (d) of this section. The risk weight assigned to a securitization exposure, or portion of a securitization exposure, as appropriate, is the larger of the risk weight determined in accordance with this paragraph (c), paragraph (d) of this section, and a risk weight of 20 percent.

(1) When the detachment point, parameter D, for a securitization exposure is less than or equal to  $K_A$ , the exposure must be assigned a risk weight of 1,250 percent;

(2) When the attachment point, parameter A, for a securitization exposure is greater than or equal to  $K_A$ , the national bank or Federal savings association must calculate the risk weight in accordance with paragraph (d) of this section;

(3) When A is less than  $K_A$  and D is greater than  $K_A$ , the risk weight is a weighted-average of 1,250 percent and 1,250 percent times  $K_{SSFA}$  calculated in accordance with paragraph (d) of this section. For the purpose of this weighted-average calculation:

- (i) The weight assigned to 1,250 percent equals  $\frac{K_A - A}{D - A}$ ; and
- (ii) The weight assigned to 1,250 percent times  $K_{SSFA}$  equals  $\frac{D - K_A}{D - A}$ . The risk weight

will be set equal to:

*Risk Weight* =

$$\left[ \left( \frac{K_A - A}{D - A} \right) \cdot 1,250 \text{ percent} \right] + \left[ \left( \frac{D - K_A}{D - A} \right) \cdot 1,250 \text{ percent} \cdot K_{SSFA} \right]$$

- (d) SSFA equation. (1) The [BANK] must define the following parameters:

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$

$$a = -\frac{1}{p \cdot K_A}$$

$$u = D - K_A$$

$$l = \max(A - K_A, 0)$$

$e = 2.71828$ , the base of the natural logarithms.

- (2) Then the [BANK] must calculate  $K_{SSFA}$  according to the following equation:

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

- (3) The risk weight for the exposure (expressed as a percent) is equal to  $K_{SSFA} \times 1,250$ .

**§ 3.145 Recognition of credit risk mitigants for securitization exposures.**

(a) *General*. An originating national bank or Federal savings association that has obtained a credit risk mitigant to hedge its securitization exposure to a synthetic or traditional securitization that satisfies the operational criteria in § 3.141 may recognize the credit risk mitigant, but only as provided in this section. An investing national bank or Federal savings association that has obtained a credit risk mitigant to hedge a securitization ex-

posure may recognize the credit risk mitigant, but only as provided in this section.

(b) *Collateral*. (1) *Rules of recognition*. A national bank or Federal savings association may recognize financial collateral in determining the national bank's or Federal savings association's risk-weighted asset amount for a securitization exposure (other than a repo-style transaction, an eligible margin loan, or an OTC derivative contract for which the national bank or Federal savings association has reflected collateral in its determination of exposure